



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://cao.lacounty.gov>

DAVID E. JANSSEN
Chief Administrative Officer

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February 15, 2007

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: David E. Janssen
Chief Administrative Officer

Michael J. Henry
Director of Personnel

STATUS REPORT ON KAISER AUDIT

At its September 19, 2006 meeting, the Board approved the recommendations of the Chief Administrative Officer and Director of Personnel related to proposed 2007 premium rates for County and union sponsored health plans. Approval of the Kaiser rates, however, was conditioned on the following:

- Receipt of data from Kaiser necessary to audit and validate Kaiser's rates.
- Renegotiation of the 2007 rates if we cannot validate them.
- A report back by February 15, 2007 on the Kaiser audit.

Following the Board's action on September 19, 2006, Kaiser confirmed they will not agree to any re-negotiation of the 2007 rates, regardless of the outcome of the audit. The Board was informed of this development and, in its meeting on December 19, 2006, instructed the Chief Administrative Officer and Director of Personnel to work with union representatives to explore the feasibility of replacing Kaiser through a Request for Proposal (RFP) effort.

The purpose of this memorandum is to inform you that the audit/validation of Kaiser's rates will be delayed to as late as May 1, 2007 due to difficulty in obtaining the requisite information from Kaiser. In addition, we are recommending that the decision to release an RFP for the Kaiser program be postponed pending the outcome of the audit.

Difficulty in Obtaining Data

We retained Mercer Human Resources Consulting (Mercer) to conduct the Kaiser audit. Mercer is in the process of completing a comprehensive actuarial review of Kaiser's data, and will provide an opinion as to whether Kaiser's rates are justified. This will include an analysis of inpatient, outpatient, and pharmacy utilization data, and a determination as to how these factors ultimately affect the rates charged. We are estimating that at least 450 staff hours on Mercer's part will be necessary before the job is completed.

The Mercer work has been slowed greatly by difficulty in getting the necessary data from Kaiser. Part of the problem is due to systems limitations on Kaiser's part stemming from a new rating system they have installed. That system, we are told, is having difficulty providing the detailed client-specific claim information requested by Mercer and considered critical to the audit. Part of the problem is also due, however, to a longstanding reluctance on Kaiser's part to share information they consider sensitive. In this instance, we are requesting information at a level of detail that we believe they have never before shared with any employer. Even though Mercer has entered into a confidentiality agreement with regard to the data, Kaiser has been slow to open up. We have effectively been negotiating with Kaiser over data throughout this entire process.

The Board order on this matter stipulated that all of the data must be provided by December 31, 2006. That, unfortunately, did not happen. However, we did receive much of the information by that date, and the balance was received on Monday of this week. The latest installment consists of 1.6 million claim records (including roughly 600,000 pharmacy records) that must be analyzed as a part of the audit. In addition to analyzing this information, we plan to have Mercer take a statistically significant sampling of cases and make site visits to Kaiser facilities to match the data against actual medical records for the sample group. We think it is important to do this to verify the integrity of the data, but permission to do it has not yet been given by Kaiser.

Given the circumstances, we need an extension of the due date on the final report on this matter to May 1, 2007. We will report back sooner if at all possible. The final report will also include a progress report on a Kaiser cost reduction program known as the "Cost Mitigation Goals and Objectives" program. The report will address whether this program can be improved or expedited. A report back on this particular issue was one of the items included in the September 19, 2006 Board order.

RFP for Replacement Plan

We believe it prudent to wait for the results of the audit report before making any decision to release an RFP to replace the Kaiser program. Waiting for the report means the Kaiser program will remain in place at least through the 2008 calendar year. Replacement for the 2009 calendar year would be a definite possibility. This time frame would also provide the opportunity to see the 2008 rate adjustments and to factor that information into this decision.

We have discussed the RFP option with the Coalition of County Unions and Local 660. Neither group has expressed a desire to market the Kaiser program at this time. Local 660, however, has indicated they would work with us on an RFP effort if that is the County's ultimate decision. We firmly believe that strong union support would be critical to the success of an RFP affecting large numbers of represented employees, and that an absence of such support would be both transparent and troubling to potential RFP respondents. For these reasons, too, we think it worthwhile to wait for the results of the audit report.

If you have any questions regarding the Kaiser review, please contact either of us, or your staff may contact Marian Hall of the Department of Human Resources at (213) 738-2255, or Frank Frazier of the Chief Administrative Office at (562) 691-4560.

DEJ:MJH
WGL:FF:MLH:kf

c: County Counsel
Executive Officer, Board of Supervisors